Better Marketing

Division of Marketing and Marketing Agreements

· · AGRICULTURAL · ADJUSTMENT · ADMINISTRATION · ·

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COTTONSEED GRADE AND PRICE INFORMATION WOULD HELP GROWERS GET HIGHER RETURNS

More adequate information as to grades and prices would enable many farmers to obtain higher returns from the sale of their cottonseed, according to a study made in the Division of Marketing and Marketing Agreements. The results of this study are contained in a report entitled "Cottonseed Prices in the United States, 1934–35."

According to the report, prices paid by mills for cottonseed usually are based on the value and the amount of products which can be milled from the seed, on the anticipated future value of the products, and on competition between mills. The prices paid by gins to growers in turn are based on the mill prices, less a margin taken by gins for handling the cottonseed. The report also shows that because the mills are located at widely scattered places in the Cotton Belt and cottonseed moves on ton-mile freight rates, the prices of cottonseed are made by mills in decentralized markets.

It is pointed out that during the 1934 season only the mills located in the Mississippi Valley States bought cottonseed on official grades. However, more than 80 percent of the mills from which data were obtained reported using the official grading system to a certain extent as a guide for determining the average value of the cottonseed which they bought.

Findings Reported

Among the principal facts developed by the study are the following:

The prices paid within each district by individual mills in the same territory frequently varied widely and changed irregularly. In a number of instances it was several days before a price change at one mill was followed by a price change at a competing mill.

Individual mills in any one district seldom paid the same prices on a particular day. Price ranges were sometimes so wide that cottonseed could have been shipped advantageously from a low-price point to a high-price point. This wide range indicated either that mill operators in one place did not know that seed could be bought more cheaply at some other place within reach, or that the sellers did not know that higher prices were being paid at some other competing mill.

In the same districts, gins located on mill yards generally paid higher prices for cottonseed than did gins located nearby the mills but not on mill yards.

The weekly average prices paid by all gins generally were highest in those districts in which the mill prices were highest. Along with the general movements of mill prices and gin prices, the average margins taken by gins for handling cottonseed varied widely at the same time in different districts and at different times in the same district. Among the causes of these wide variations in margins were (1) charging low prices for ginning services and taking wide margins on cottonseed; (2) paying high prices for cotton and making up the losses from profits on cottonseed; (3) not reflecting the grade premiums or discounts in the prices paid to growers, when buying cottonseed on grade; (4) using arbitrary methods in arriving at the weights of cottonseed; (5) lack of pressure by growers upon gins for prices commensurate with what the mills were paying; and (6) the degree of competition among gins.

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Government-Bought Surplus Wheat Milled Into Flour for Relief Use

More than 659,500 barrels of flour have been made available for relief distribution during the last 3 months under programs designed to remove surpluses and encourage domestic consumption of farm products. This flour was derived from some 3,033,700 bushels of wheat bought by the Federal Government in Pacific Northwestern, Central, and North Atlantic States.

Purchases of wheat in the North Pacific States for relief distribution in the form of flour, were approved by the Secretary of Agriculture on March 28, 1936, in a program authorized to continue until July 1. In this program 2,121,800 bushels of soft white and western red wheat were bought in Oregon, Washington, and Idaho. This wheat was converted into 461,200 barrels of flour.

Purchases in the Central and North Atlantic States consisted of soft red winter wheat. Under this program, authorized by the Secretary on April 13 to continue until July 1, approximately 911,900 bushels of wheat were bought in Indiana, Kentucky, New York, and Ohio, and converted into about 198,240 barrels of flour.

All of the purchases were made on the basis of the current market value in these areas, so as not to affect the normal market situation. The Commodities Purchase Section did the buying and arranged for the transportation

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TOBACCO MARKET HELPED BY DIVERSION PROGRAM

Dark Air-Cured and Dark Fire-Cured Tobacco Surplus Being Diverted Into Nicotine Under Program

Improved marketing conditions for growers of dark fire-cured and dark air-cured tobacco are the objectives of a program now under way for the diversion of excess stocks of these types of tobacco from normal channels of trade to other uses.

Under this program, which is now more than half completed, the surplus tobacco is being turned into byproducts such as nicotine. Deliveries of this tobacco to the processing plants will continue at the rate of about 300,000 pounds per week from now until November. By that time it is expected that 15,300,000 pounds of tobacco will have been diverted.

All of the tobacco diverted is from holdings of the tobacco growers cooperative associations and represents a surplus that cannot be sold in the regular channels of trade.

The dark fire-cured and dark air-cured tobaccos are "heavy" tobaccos, that is, they are strong, full-bodied, and have a high aroma. They have been popular with consumers in certain European countries for many years, and have been an important part of the tobacco exports from this country. Considerable amounts have been used domestically, the fire-cured leaf being required for snuff, and the dark air-cured leaf for chewing tobaccos and some types of smoking mixtures.

Declining Demand

Because of the general trend of tobacco consumers in all parts of the world toward milder tobaccos, the demand for these "heavy" tobaccos has been decreasing. The tobacco growers of central Virginia, western Kentucky, and Tennessee, and southern Indiana, where these types are produced, are also facing keen competition in foreign markets with subsidized crops produced in European countries and their colonies. Exports of fire-cured leaf have declined from 237 million in 1923 to less than 66 million pounds last year, and exports of dark air-cured tobacco have declined from 20,000,000 pounds to less than 5,000,000 pounds during the same period.

Domestic consumption of these two types has also declined. The estimated domestic consumption of fire-cured leaf

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JESSE W. TAPP, *Director*

BETTER MARKETING is issued as a means of communicating to workers and cooperators of the Division of Marketing and Marketing Agreements information relative to the Division's activities under the Agricultural Adjustment Act and related Acts.

UNITED STATES DEPARTMENT OF AGRICULTURE

AGRICULTURAL ADJUSTMENT ADMINISTRATION
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NATHAN KOENIG, *Editor*, BETTER MARKETING

TOBACCO MARKET HELPED

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during the same period has declined from around 46,000,000 to 40,000,000 pounds last year. In dark air-cured tobacco the domestic trend away from chewing tobacco and heavy smoking leaf has been reduced in the same 15-year period, consumption dropping from 43,000,000 to 26,000,000 pounds.

Declines in consumption and exports, coupled with the subsidized increase in production of foreign tobaccos of similar types developed an excess of stocks beyond what the leaf-tobacco trade ordinarily requires or desires to maintain for normal balances. These surpluses were having a very depressing effect upon the market prices for these domestic types.

Plan to Relieve Situation

In order to relieve the situation, the byproducts-diversion plan was put into effect in March. Some 15 million pounds of tobacco, one-half from the 1935 crop and one-half from old stocks in the hands of the farmers' cooperative associations, was sold to the manufacturers of nicotine and tobacco extracts at regular market prices for their raw materials. The difference in the inventory values, on which basis the associations had made advances to the producers, and the amount received from the nicotine and extract manufacturers is being paid by the Agricultural Adjustment Administration from funds made available to the Secretary of Agriculture under section 32 of the amendments to the Agricultural Adjustment Act which were approved last August.

The plan is permanently removing surplus supplies from the usual channels of trade in leaf tobacco. It tends to stabilize the market for these types by relieving part of the pressure which the excess stocks had exerted upon the domestic and foreign markets.

Under the program the excess is going into the manufacture of nicotine, used by farmers and horticulturists for the control of certain insect pests on fruit and nut trees, truck crops, and ornamental plants, and on poultry.

While the total cost to the Government is placed at approximately $1,241,000, it is estimated that the program has prevented losses of several times this amount on the market values of the 309 million pounds of tobacco of these types held in stock by farmers' cooperative associations, dealers, exporters, and manufacturers.

MILK MARKET PROGRAMS BASED ON EARLY EFFORTS

Provisions of Law Spell Out Powers Which May Be Utilized in Plans to Aid Dairymen

Milk marketing programs in effect under the provisions of the Agricultural Adjustment Act as amended last August are an important phase of the general agricultural program designed to improve the economic position of farmers.

The complex marketing system which has developed in the handling of dairy products necessitated a special type of approach which is aiding in the stabilization of milk markets in more than 2 dozen sales areas. The specific plan developed under the marketing agreement and license provisions of the original act which became law in the spring of 1933, and later embodied in detail in the amendments of last August, is based on the cumulative experience resulting from the organized marketing activities which producers had developed within the last two decades.

In general, each program is designed to supplement the initiative and organized effort of producers within the marketing area concerned. The few functions which are fundamental are made effective for handlers in a marketing area through an order which embodies the provisions of a marketing agreement on which a public hearing has been held.

Provisions of Act

First, the act authorizes the Secretary to fix uniform, minimum prices which handlers must pay to producers. Provision is also made for classifying milk in accordance with the form in which, or the purposes for which, it is used. This is similar to the system of classification which has operated successfully in many markets for a number of years. Certain adjustments arising out of recognized marketing conditions are allowed as offsets to the basic price established. The time when payments to producers are to be made may also be established.

The second fundamental feature concerns the uniformity of payment to producers. Uniformity may be secured in either of two ways. One is through what is commonly known as the market-wide equalization plan under which all producers receive the same price for milk of the same quality irrespective of the handler in the market to whom their milk is sold. The other is commonly known as an individual-handler-pool plan under which each producer selling to a particular handler receives the same price for milk of the same quality as all other producers who sell to the same handler. The individual-handler-pool plan may be used only when approved by three-quarters of the producers in the market.

One adjustment which is authorized by the act in connection with payments to producers embodies the well-known base-surplus plan, which may or may not be followed, according to the wishes of the industry in any particular market. This plan establishes a method, within the requirement of uniformity, under which proceeds may be distributed to producers on the basis of production in relation to the fluid-milk needs of the entire market.

Where a market-wide pool is used, in order to adjust the method of determining total cost to handlers and payments to producers, the act provides for equalization payments to be made to and by handlers through the market administrator. This makes it possible for all producers to receive uniform prices when handlers pay for milk on a classified-price basis.

In addition to these fundamental provisions there are others which pertain to the entrance of new producers on the market, services which may be rendered by the market administrator to producers and the making of deductions for these services, provisions prohibiting unfair competition and unfair trade practices and for the setting up of an administrative agency to be financed by pro-rata assessments on handlers.

Cooperation Essential

In connection with the formulation, issuance, and termination of marketing agreements or orders, as well as in the rendition of services to producers, bona-fide cooperative organizations are recog-

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COTTONSEED PRICES

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"It is apparent from the facts brought out in this study that producers, ginners, and mill operators do not have adequate knowledge of the prices of cottonseed in the markets accessible to them, or of the grades of cottonseed in the adjacent areas", the report states. "Such knowledge could be supplied by a price- and grade-reporting service which could collect and disseminate promptly cottonseed price and grade information."

Information Needed

The report adds that the publication of prices and grades of cottonseed probably would increase the competition between the mills and between the gins and eliminate many abuses in connection with the buying of cottonseed.

Belief is expressed in the report that "if growers had adequate information on grades of cottonseed in their respective communities, they would probably demand and obtain premiums when the seed graded high. Should growers receive premiums when the seed graded high and take discounts when the seed graded low, they would have a price incentive to improve their seed."

Copies of the report are available upon request to the Division of Marketing and Marketing Agreements, Agricultural Adjustment Administration.

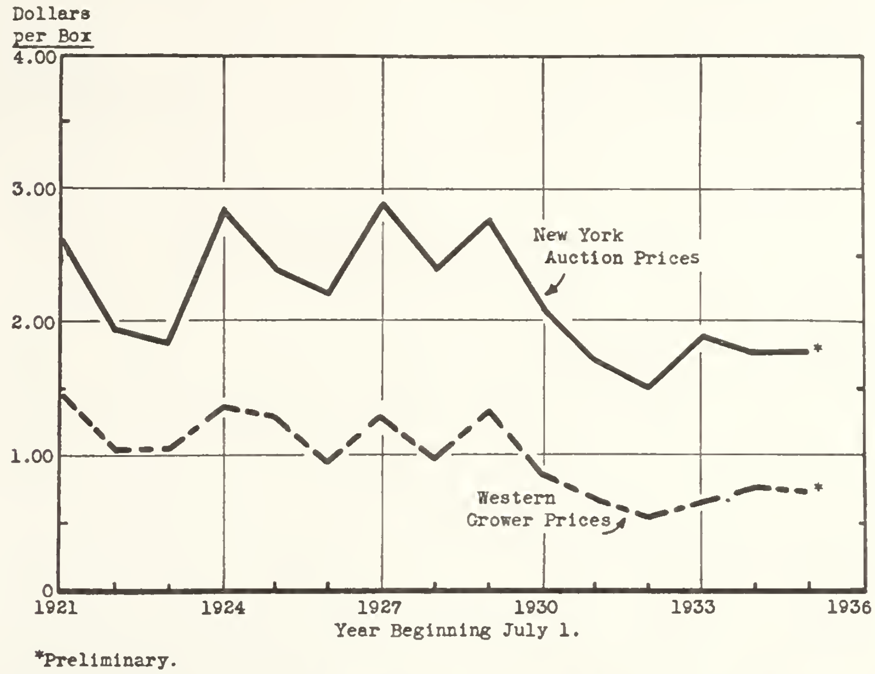
WESTERN APPLE GROWERS FACED WITH PROBLEMS

Orchardists Driven Into Debt by Low Returns; Suggestions Made for Improving Conditions

About one-third of the apples grown in this country, and over 40 percent of the apples used for fresh consumption, are produced in the western region, which includes the Pacific and Mountain States. In this section of the United States, apple production has been commercialized to a much higher degree than in other areas of the country. This is particularly true in the State of Washington where over 50 percent of the total production of apples in the western region is grown.

Though an important source of the Nation's domestic and export supplies of apples, the western growers have for several years suffered from the effects of low prices and low total income, according to the General Crops Section. One consequence has been the neglect of many orchards and destruction of trees. Another has been a growing burden of debt, which frequently exceeds $1,000 per acre, much of it accumulated through current operating deficits. Indebtedness of over $500 per acre in the commercial regions is probably the general rule.

RELATIONSHIP SHOWN IN WESTERN APPLE PRICES



The above graph shows the relationship between New York auction prices and reported prices received by western apple growers, 1921–22 to 1935–36. New York auction prices are representative of terminal prices for western apples. The prices to western growers, reported by the Bureau of Agricultural Economics, follow terminal prices very closely. Growers are dependent upon terminal prices. They receive what is left after transportation and other selling charges have been paid.

Industry-wide Concern

So long as western apple production is a commercial activity, growers in this region must remain sensitive to marketing problems. The continuance of unsatisfactory marketing seasons has served to emphasize their direct concern in apple prices as they affect the individual grower's income from sales. At first thought this appears to be an individual problem limited simply to the price the individual receives and the volume he sells. Further reflection, and the experience of many years of inadequate returns, is convincing growers that there is much more involved.

With about 130,000 farms on which apples are grown in the Western States, individual or relatively small group action is unimportant in determining what prices growers are likely to receive for their crop, though the combined action of all commercial producers very substantially affects individual prices and returns.

About 80 percent of the western apples are marketed in the central and eastern regions. Packing, transportation, and other selling charges average at least $1.10 per box to Chicago and over $1.22 per box to New York. These charges, which are relatively fixed from one season to the next, must be deducted from terminal market prices or allowed for in f. o. b. purchases before any return is available to the growers

Fewer Trees

From 1920 to 1930 there was a decrease of nearly 8,000,000 bearing trees, or 38 percent, in the Western States. Further declines, especially in the poorer apple districts, have taken place since that time. However, because of unusually good cultural and growing conditions, the yield per tree increased from about 2 bushels from 1917 to 1921 to about 4.25 bushels from 1927 to 1931. As a consequence, the western growers have a total supply of from 43,000,000 to 55,000,000 bushels of apples annually, of which approximately 75 percent is sold for fresh consumption.

Annual shipments have tended to vary with the size of the western crop and relatively little attention has been given to the size of competing crops in the central and eastern States.

Price Factors

The terminal prices for western apples, which are primarily dessert varieties, have been substantially affected not only by the total western shipments for fresh sale but by the volume of fresh shipment in the Eastern and Central States, the increasing competition from oranges, and changes in the level of consumer income. An examination of the influence of these factors and the spread between terminal and grower prices indicates that within certain limits, returns to growers may be substantially decreased if shipments of western apples are made without any reference to the other conditions affecting the demand for apples. On the other hand, it appears that orderly marketing of western apples can increase prices and total returns to growers.

December 1 cold storage holdings in the western region increased more rapidly than in any of the other areas. From 1922 to 1926 they averaged 6,200,000 bushels annually but increased over 100 percent to an average of 12,600,000 bushels annually in the 4 years ending in 1935. These storage holdings have increased to over one-third of the annual western commercial production as compared to less than 15 percent previous to 1924. Western holdings have been from 39 to 46 percent of all December 1 storage apples in the United States in recent years.

Marketing Needs

Very substantial quantities of fancy and choice grades of western apples sold in the 1935–36 season did not return to growers the picking, packing, and other marketing charges. In Chicago approximately 25 percent of the principal varieties sold on the auction market in March and April 1936, chiefly Jonathans, did not average over $1.10 per box.

When it is realized that such sales not only caused direct operating losses to growers, but substantially affected prices and returns on all other sales made, it is apparent that under conditions such as those which existed in the 1935–36 season, more attention should be given to marketing by varieties and grades. Foresight in regard to the probable effect which the volume of western apple shipments may have on prices and returns to growers would materially assist growers and others in preventing errors and losses which frequently occur, especially in view of competing apple supplies, orange shipments, and the level of consumer income.

DAIRY AID MEASURES SHOW WIDE VARIATIONS

Different Restrictions Employed by Foreign Countries in Strong Contrast With U. S. Steps

[*This is the eighth of a series of articles on world trade in butter as it relates to butter production and marketing in the United States*]

Dairy industry restriction policies of many foreign countries in addition to providing a system of tariff protection such as is used in this country, also involve quantitative limitation of butter imports and subsidization of butter exports, measures which have not been resorted to in the United States.

A summary of plans to increase the income of dairy farmers in foreign countries shows the following:

Australia fixes the internal price. All the butter is pooled, so that the loss on the exported butter is borne equally by all producers. A market stabilization plan is in effect in Denmark, temporary surpluses being placed in cold storage and later distributed in the home market. Estonia and Latvia guarantee fixed prices to producers. The difference between the fixed price and the price received by producers is paid to producers by the respective governments. Bounties to exporters are also paid in these countries. Finland grants a bounty on exports of butter and cheese. The Netherlands levies a tax on domestically consumed butter and Sweden levies a tax on all milk, Sweden using the proceeds from the tax to pay bounties to exporters. Compulsory admixture of butter with margarine for home consumption is required in the Netherlands, and cow-reducing programs were adopted in that country and also in Denmark.

It is pertinent to note that New Zealand, which is the second largest world exporter of butter, does not subsidize the exportation of this commodity at the present time. While the payment of a subsidy to dairy farmers has been advocated in that country in the past, either as an outright gift from general tax funds or by way of a loan, the Dairy Industry Commission reporting in 1934 on conditions and problems confronting the industry definitely opposed such action.

Tariff in United States

In the United States, the tariff on butter imports has been increased from time to time obviously as a protective measure for the dairy industry. The Tariff Act of 1913 reduced the duty on butter from 6 to 2.5 cents per pound. This rate was maintained until May 28, 1921, when the Emergency Tariff Act restored the 6-cent duty on butter. On September 21, 1922, the Fordney-McCumber Tariff Act was passed, increasing the duty on butter to 8 cents. On March 6, 1926, President Coolidge raised the rate on butter by proclamation to 12 cents, effective April 6, 1926. The duty was further raised on June 17, 1930, when the Hawley-Smoot Tariff Act was passed, increasing the rate to 14 cents per pound, effective on June 18, 1930.

The rate of duty levied on butter imported into the United States is a consideration in the analysis of a plan to increase the income of producers through the subsidization of exports. It is obviously important that the tariff be at such a rate that imports will not be attracted to an extent that gains from the program will be vitiated by such imports.

Domestic prices have exceeded world prices by more than the prevailing tariff of 14 cents only at infrequent intervals. In view, however, of the increasing restrictions of importing countries against imports of butter and the increasing production of the butter-exporting countries, it is possible that world prices will decline to a point where domestic prices will exceed such world prices by more than the import duty, unless some measures are adopted by the exporting countries to avoid a decline in prices.

If the United Kingdom places quota restrictions on butter from all sources, foreign and Dominion, or increases the present tariff rate, the short-time effect probably would be to encourage imports into the United States. The successful operation of the subsidization plan may necessitate, therefore, either increased import duties or other import restrictions in the United States. On the other hand, it should be noted that there is an obvious inconsistency, from the point of view of foreign trade policy, in any plan designed to increase exports of butter from the United States to foreign countries which also, at the same time, contemplates the exclusion of foreign butter from the United States.

MILK MARKET PROGRAMS

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nized in such a way as to encourage their development and essential operations in the market. Efficient organization among producers has been found to be of primary importance to the success of the Federal milk-marketing programs.

Within the last 3 years more than a score of States have also enacted regulatory legislation for the milk industry. Administrative problems and jurisdictional limitations have emphasized the desirability of close cooperation between Federal and State authorities. Such cooperation is made possible by the recent amendments to the Agricultural Adjustment Act.

WHEAT MILLED INTO FLOUR

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and milling of the wheat. The flour was turned over to the Federal Surplus Commodities Corporation for relief distribution in various sections of the United States.

A large part of the mill feed which resulted from the milling of this flour has been shipped into the drought-stricken States for distribution to needy farmers for livestock feeding.

The programs were financed with funds made available to the Secretary of Agriculture under section 32 of the amendments to the Agricultural Adjustment Act which were approved last August.

GOVERNMENT PURCHASES AID TO DAIRY INDUSTRY

Surplus Dairy Products Bought by Government for Relief Use Improves Markets

Surplus dairy products bought by the Agricultural Adjustment Administration from August 1933 to date for the primary purpose of improving returns to dairy farmers exceed 162,000,000 pounds.

Under the program more than 71,949,500 pounds of butter, 19,027,500 pounds of cheese, 17,955,700 pounds of dry skim milk, and 53,186,300 pounds of evaporated milk were bought. While approximately $24,400,000 has been expended in making these purchases, the effects of carrying out this program have been of considerable importance to the dairy industry.

The program was inaugurated in August 1933, largely at the request of representatives of producers and their cooperative marketing associations. At that time the dairy industry was confronted with a serious surplus situation which had resulted from depression factors. The amount of butter in storage totaled 175,000,000 pounds, the largest volume on record. Other branches of the dairy industry were in an equally critical condition.

The effects of buying surplus dairy products during the last 3 years are summarized by the dairy section, as follows:

1. The purchase program has removed large quantities of excess dairy products from markets for distribution into those channels of consumption which otherwise would not have offered an outlet for these products.
2. Removal of the surplus of dairy products from markets has served to restore a more normal supply situation to the dairy industry and to improve returns to those farmers who produce milk for manufacture into butter, cheese, and other dairy products.
3. The program has placed the farmer's price of fluid milk on a firmer basis, since the price of this milk bears a direct relationship to the price of milk used for manufacturing purposes.
4. Operations under the program have assisted dairy farmers' cooperatives in their efforts to stabilize marketing conditions for milk and its products.

All of the dairy products bought under the program have been made available for immediate consumption to persons on relief.

The surplus-removal operations constitute one phase of a general direct-aid program designed to improve economic conditions in the dairy industry. Other parts include marketing-agreement programs for fluid-milk markets and for the national dry skim-milk and evaporated-milk industries and programs for the elimination of Bang's disease and tuberculosis in cattle.

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